



chair **John Chiang**
member **Jerome E. Horton**
member **Ana J. Matosantos**

State of California
Franchise Tax Board

02.03.11

Roland Boucher
United Californians for Tax Reform
11 Deerspring
Irvine, CA 92604

Dear Mr. Boucher,

Thank you for your proposal submitted for the Taxpayers' Bill of Rights Hearing that was held on December 2, 2010. I am responding to your proposal to raise the California standard deduction to the federal level.

Based on California personal income tax returns filed for tax year 2006, nearly 800,000 taxpayers (approximately 6percent of all personal income tax filers) filed returns claiming itemized deduction amounts that fall between the California and Federal standard deduction amount. Raising the California standard deduction amount to the federal standard deduction amount **will** reduce the burden to file by allowing this population of taxpayers to use the same standard deduction for both California and Federal purposes. However, raising the California standard deduction to the federal amount still may not allow all of these taxpayers to file 540 2EZ. There are a number of other criteria that must be met in order for a taxpayer to qualify for filing 540 2EZ such as filing status, number of dependents, amount of income, sources of income, federal/state adjustments, type of withholdings, tax credits, and other taxes.

This proposal recommends an increase of the California standard deduction to equal the federal standard deduction, and raise the 1 percent bracket to 2 percent in order to achieve revenue neutrality. Based on the proposed change to the standard deduction and elimination of the 1 percent tax bracket, our net revenue projections show a 3-year revenue impact of \$1.62 billion (Fiscal 11/12 = \$680M; Fiscal 12/13 = \$460M; Fiscal 13/14 = \$480M).

Alternative proposal - In order to achieve the near revenue neutrality, we have computed a similar scenario where the California standard deduction is equal to the federal standard deduction, and the 1 percent and 2 percent tax brackets are combined with a new tax rate of 1.81 percent. Based on this scenario, our net revenue projections show a 3-year revenue impact of just -\$28million. (Fiscal 11/12 = -\$12M; Fiscal 12/13 = -\$8M; Fiscal 13/14 = -\$8M). The alternative proposal results in the least amount of net revenue impact. However, many taxpayers will see either an increase or decrease in tax under both proposals. For example, taxpayers who currently report itemized deductions greater than the proposed standard deductions, and with no reduction in their burden to file.

California voters recently passed Proposition 26. The provisions of Proposition 26 state that a change that results in a tax increase to any taxpayer requires a 2/3rds majority vote. Thus, even if overall revenue neutrality is achieved, this proposal results in an increase to some taxpayers and appears to come under the 2/3rds vote requirement of Proposition 26.

For taxpayers who wish to report itemized deductions, there are many free e-file options available, including FTB's "CalFile." These applications help taxpayers to easily compute itemized deductions and e-file their return for free. In addition, e-file is fast, secure, and saves paper.

As a result of the above discussion, we are unable to recommend an FTB sponsored legislative proposal to increase the CA standard deduction to an amount equal to the Federal standard deduction and elimination/adjust the tax rate for the 1 percent tax bracket. We believe this type of proposal may be more appropriate for consideration by a legislative representative.

Sincerely,

Steve Sims, EA
Taxpayers' Rights Advocate

cc: Hon. John Chiang, Chair
Hon. Jerome E. Horton, Member
Hon. Ana J. Matosantos, Member